SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE COMMITTEE ON ENERGY AND COMMERCE INVESTIGATION INTO
PHARMACEUTICAL REIMBURSEMENTS AND REBATES UNDER MEDICAID

WAL-MART FACT SHEET ON PHARMACY

Wal-Mart and Sam's Club operate retail pharmacies in 49 states and Puerto Rico. Wal-Mart operates nearly 3,500 pharmacies and employs more than 25,000 Pharmacy Associates, including 11,500 licensed pharmacists. Wal-Mart pharmacies operate across the country, from large urban centers to small rural communities. We value all of our customers, and continue our core philosophy of bringing value priced goods and services to all of our customers. Unlike most of our competitors, many of our pharmacies (more than 1,200) operate in rural areas with less than 50,000 residents. Wal-Mart's roots are in those areas, and we continue to serve them.

Wal-Mart serves Medicaid recipients in all states except North Dakota, where state law prevents it from operating pharmacies. A large majority of our pharmacy revenue comes from private insurers and cash paying customers. Our Medicaid business, which constitutes 11% of our pharmacy revenue, is important and valued but is by no means dominant. Medicare Part B drug reimbursements account for less than one percent of revenues, as Medicare currently does not pay for most drugs sold in retail pharmacies.

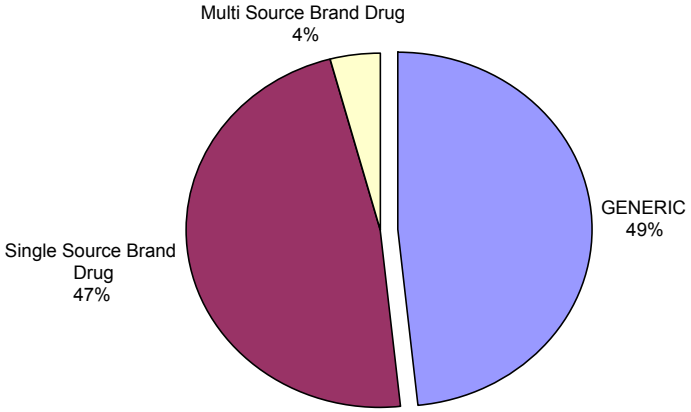
With respect to Medicare Prescription Drug Discount Cards, instead of sponsoring its own card, Wal-Mart decided to accept all endorsed drug discount cards it was permitted to join when the program was implemented by HHS earlier this year. Wal-Mart looks forward to the opportunity to serve our Medicare customers' pharmacy needs when the Medicare drug benefit starts.

Wal-Mart competes for all customers, including Medicaid recipients, on the basis of price and service. Wal-Mart's pharmacy operations consist largely of retail pharmacies. Our

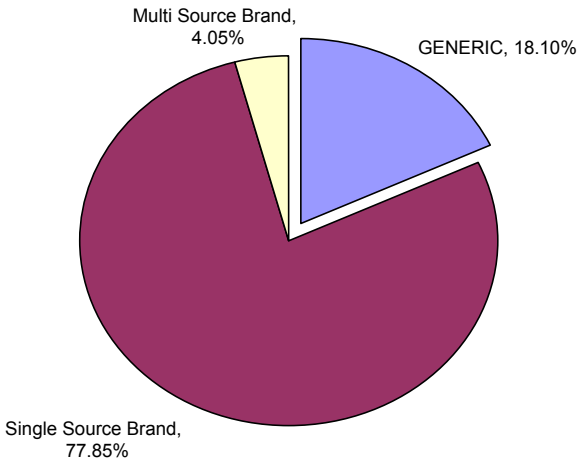
Pharmacy Associates interact face-to-face with their customers on a daily basis, and are committed to partnering with their customers to seek the best treatment options. Our pharmacists consult with customers on both prescription and over-the-counter products, even if those customers get their prescriptions filled by a competitor. They are advocates for the patients they serve, offering valuable services including conversion of brand medications to lower cost generics as soon as they become available, working with prescribers to select less expensive alternative medications, and selecting less expensive OTC treatment options.

Wal-Mart believes that the major cause of high drug expenditures by Medicaid is the high cost of single source brand name drugs, for which there is no price competition. A quick review of the facts, as depicted in the following charts, reveals the problem graphically.

Percent of Medicaid Prescriptions by Type of Drug
Wal-Mart data, 2002

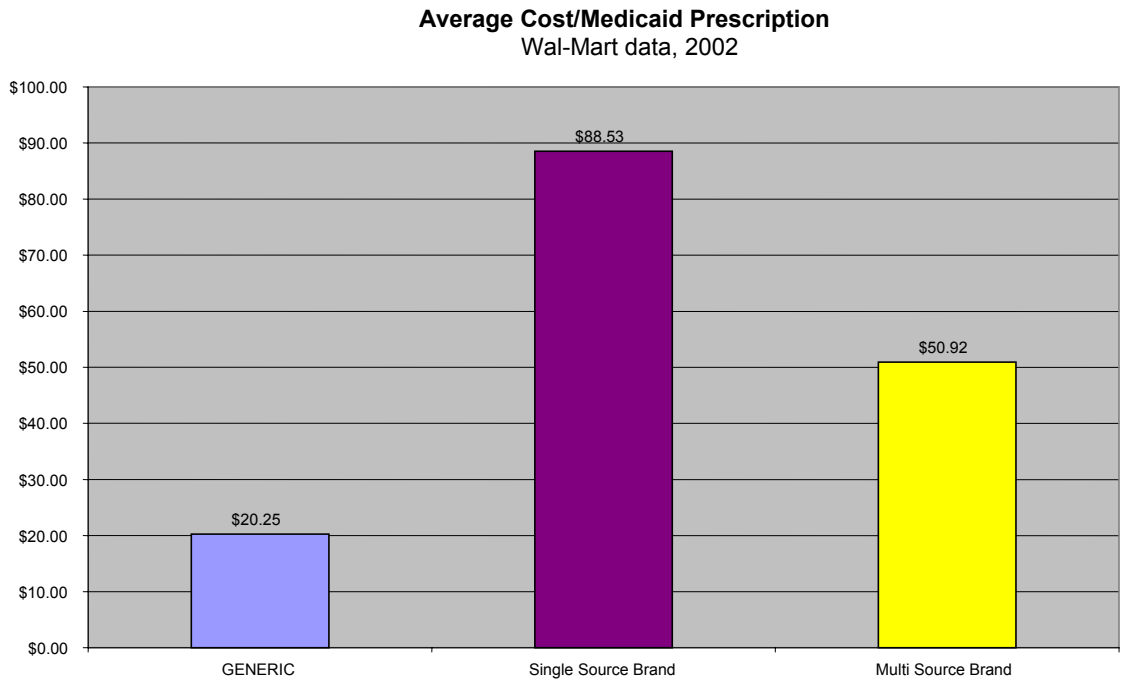


Percent of Medicaid Revenue by Type of Drug
Wal-Mart data, 2002



While nearly half of the prescriptions are written for generic drugs, they account for less than 20% of total Medicaid expenditures. Switching from expensive brand name drugs to lower cost generics can provide substantial cost savings. Generic drugs mean competition, and competition means lower prices, both to pharmacies and to customers. Where permitted, Wal-Mart has a very successful generic substitution program, achieving substitution more than 94% of the time. Wal-Mart is committed to encouraging the use of AB rated generics, which are significantly less expensive than branded drugs. The FDA has deemed AB rated generics to be bioequivalent and therapeutically equivalent to the brand name drug.

Wal-Mart supports the implementation of mandatory generic substitution by all Medicaid programs. It provides patients with safe and effective drug products, while providing tremendous cost savings. Focusing on generics to reduce Medicaid prescription drug costs is not the answer, because the largest expense lies in the over-utilization and high cost of single source brand name drugs. The following chart depicts the average total reimbursement received by Wal-Mart from Medicaid programs for each type of drug.



Generic drugs are a commodity, subject to commodity price variances. When AB rated generic products are available from multiple manufacturers, Wal-Mart purchases the drug product with the lowest acquisition cost. Medicaid pays the lower of the pharmacy's "usual and customary"* price, or a formula consisting of estimated acquisition cost + a dispensing fee. Wal-Mart's every day low price is often lower than the reimbursement formula for Medicaid, providing additional savings to Medicaid.

Single source brand drugs and multi-source brand drugs are patented, and therefore proprietary. Several studies by the Office of the Inspector General have shown that chain pharmacies and independent pharmacies pay nearly the same cost for brand name drugs.

Another option for reducing Medicaid drug expenditures is therapeutic substitution. This involves substituting one equally effective drug product for another in the same therapeutic class of drug. To be effective, some economic incentive should be provided to pharmacists for the substantial time and effort involved in working with physicians to change prescriptions within a therapeutic class. The cost of multi-source brand drugs is much lower on average than

*"Usual and Customary", or U&C, is defined as the usual and customary charge for a drug product offered to cash paying customers.

single source brands, but still much higher than generics. Although it is not a panacea, some competition is better than none in the battle to bring prices down.

Wal-Mart supports a reimbursement methodology that provides fair payment for the service and product delivered, protects the customer's safety, and permits the nation's retail pharmacies to fairly participate. Whatever reimbursement standard is used, it should: 1) be known to pharmacies in a transparent fashion; 2) be auditable; 3) be identical for all retail pharmacies; 4) retain substantial benefit for the use of generic products; and 5) be sufficient in the aggregate to permit an efficient pharmacy to continue to provide the valuable face-to-face service we provide.

While all of the details about ASP are not yet known, Wal-Mart is very concerned that ASP could harm retail pharmacies, since it is based on the dead net cost to all purchasers, regardless of the class of trade. There is a great disparity between what drug manufacturers charge retail pharmacies and the significantly lower prices they charge other classes of trade such as hospitals, mail order pharmacies, and health maintenance organizations.

Despite our market power, Wal-Mart can not bring down the cost of proprietary drug products protected by federal patents, nor does it demand payments from manufacturers to place only some products on formularies. As a retail pharmacy provider, we must stock and dispense the majority of medications that are commonly prescribed and demanded by our customers. Private payers may benefit from restricted formularies through payments from manufacturers to get formulary placement. These payments also make the cost of the health care system even less transparent.

In the end, Wal-Mart and other retail pharmacies provide tremendous value to the health care system, both private and public. Wal-Mart is a low-cost operator that uses technology and

other efficiencies to bring lower prices to our customers. Moreover, the benefits of face-to-face contact between customers and their pharmacists can not be overlooked. Wal-Mart was the first pharmacy chain to submit the requested information to the Committee, and is pleased to provide any assistance the Committee may need as it reviews issues surrounding the cost of drugs to the Medicaid program.